

How the European Union interacts with its member states

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**How the European Union Interacts with
its Member States**

Tanja A. Börzel

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November 2003

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Founded in 1963 by two prominent Austrians living in exile – the sociologist Paul F. Lazarsfeld and the economist Oskar Morgenstern – with the financial support from the Ford Foundation, the Austrian Federal Ministry of Education, and the City of Vienna, the Institute for Advanced Studies (IHS) is the first institution for postgraduate education and research in economics and the social sciences in Austria. The **Political Science Series** presents research done at the Department of Political Science and aims to share “work in progress” before formal publication. It includes papers by the Department’s teaching and research staff, visiting professors, graduate students, visiting fellows, and invited participants in seminars, workshops, and conferences. As usual, authors bear full responsibility for the content of their contributions.

Das Institut für Höhere Studien (IHS) wurde im Jahr 1963 von zwei prominenten Exilösterreichern – dem Soziologen Paul F. Lazarsfeld und dem Ökonomen Oskar Morgenstern – mit Hilfe der Ford-Stiftung, des Österreichischen Bundesministeriums für Unterricht und der Stadt Wien gegründet und ist somit die erste nachuniversitäre Lehr- und Forschungsstätte für die Sozial- und Wirtschaftswissenschaften in Österreich. Die **Reihe Politikwissenschaft** bietet Einblick in die Forschungsarbeit der Abteilung für Politikwissenschaft und verfolgt das Ziel, abteilungsinterne Diskussionsbeiträge einer breiteren fachinternen Öffentlichkeit zugänglich zu machen. Die inhaltliche Verantwortung für die veröffentlichten Beiträge liegt bei den Autoren und Autorinnen. Gastbeiträge werden als solche gekennzeichnet.

Abstract

The paper seeks to identify concepts and theories to analyze and explain the relationship between the Member States and the European Union. It mainly adopts a top-down perspective looking at how the European Union has affected the Member States and to what extent it has changed their domestic institutions, policies and political processes. What is the effect of the European Union on the Member States? The paper reviews the existing literature, which offers different insights on each of the three questions. While by now most students of the European Union agree that its effect on the Member States is differential, there is still little consensus on how to account for variation in the processes, degrees and the outcomes of domestic change. Nor has the literature paid much attention to how the Member States have responded to the increasing effect of the European Union on their domestic institutions, policies and political processes. The paper therefore concludes with some considerations on how to conceptualize the feedback loops between 'top-down' and 'bottom-up' dynamics in the relationship between the EU and its Member States.

Zusammenfassung

Das Papier diskutiert Konzepte und Theorien, mit deren Hilfe sich die Beziehung zwischen der Europäischen Union und ihren Mitgliedstaaten untersuchen lässt. Im Mittelpunkt steht die Frage, inwieweit die Europäische Union die politischen Institutionen, Prozesse und Politikinhalt auf der nationalen Ebene verändert hat. Während sich die Literatur mittlerweile weitgehend einig ist, dass die innerstaatliche Wirkung der Europäisierung erheblich variieren kann, gibt es immer noch keinen Konsens, wie sich solche Varianzen am besten erklären lassen. Auch die Versuche der Mitgliedsstaaten, auf die durch die Europäisierung induzierten Veränderungen im EU-Entscheidungsprozess zu reagieren, haben bisher nur wenig Beachtung gefunden. Das Papier schließt deshalb mit einigen Überlegungen, wie sich solche „Rückkopplungseffekte“ konzeptionell fassen lassen.

Keywords

Europeanization, domestic impact of Europe, institutional change, misfit, convergence/divergence

Schlagwörter

Europäisierung, innerstaatlicher Wandel, Anpassungsdruck, Konvergenz/Divergenz

General note on content

The opinions expressed in this paper are those of the author and not necessarily those of the IHS
Department of Political Science

Notes

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1. Introduction

This paper seeks to identify concepts and theories to analyse and explain the relationship between the Member States and the European Union. While acknowledging that the relationship between the Member States and the European Union is an interactive one, most of the literature focuses one side of the equation. European level processes are ‘bracketed’ to analyze their effects at the member-state level or vice versa.

For a long time, European studies have been mostly concerned with the ‘bottom-up’ dimension of the EU-Member State relationship exploring the role of the Member States in the European institution-building process. In recent years, however, there is an emerging ‘top-down’ literature analyzing the effect of the evolving European system of governance on the Member States (Marks, Hooghe, and Blank 1996; Cowles, Caporaso, and Risse 2001; Goetz and Hix 2000).¹ A comprehensive understanding of the relationship between the Member States and the European Union requires the systematic integration of the two dimensions. Nevertheless, this paper will mainly adopt a top-down perspective looking at how the European Union has affected the Member States and to what extent it has changed their domestic institutions, policies and political processes. More specifically, three questions will be addressed:

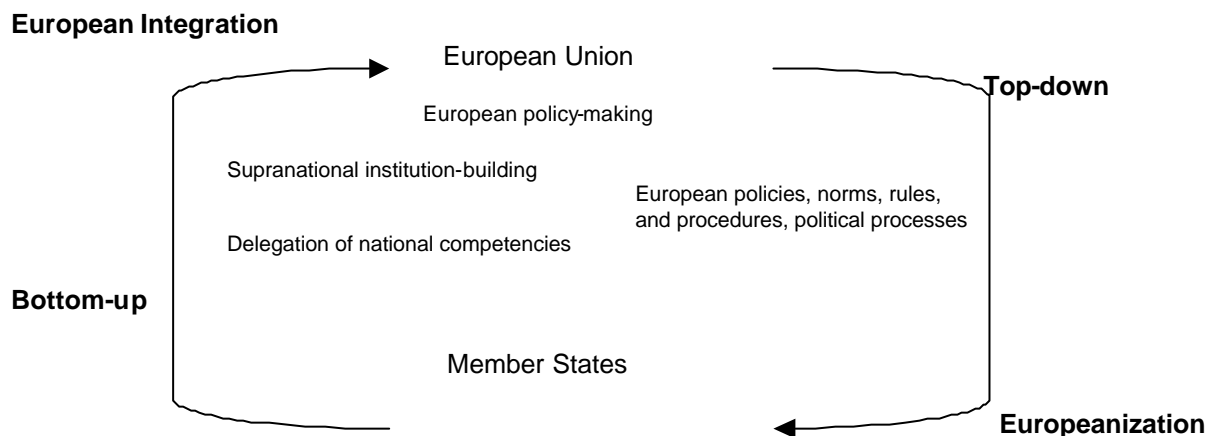
- 1) Where does the European Union affect the Member States (*dimensions of domestic change*)?
- 2) How does the European Union affect the Member States (*mechanisms of domestic change*)?
- 3) What is the effect of the European Union on the Member States (*outcome of domestic change*)?

The paper will review the existing literature, which offers different insights on each of the three questions. While by now most students of the European Union agree that its effect on the Member States is differential, there is still little consensus on how to account for variation in the processes, degrees and the outcomes of domestic change. Nor has the literature paid much attention to how the Member States have responded to the increasing effect of the European Union on their domestic institutions, policies and political processes. The paper

1 Part of the literature refers to the effect of the European Union on the Member States as ‘Europeanization’ (Ladrech 1994; Radaelli 2000). Others reserve the term Europeanization for the ‘emergence and the development at the European level of distinct structures of governance’ (Risse, Cowles, and Caporaso 2001). On the various concepts of Europeanization see Börzel and Risse 2000; Olsen 2002).

will therefore conclude with some considerations on how to conceptualize the feedback loops between ‘top-down’ and ‘bottom-up’ dynamics in the relationship between the EU and its Member States.

Figure 1: The Relationship between the EU and its Member States: Bottom-up and Top-Down



Source: Cf. Schmidt 2001; Hix and Goetz 2000.

2. From Bottom-up to Top-Down

For decades, research in the field of European Studies adopted a ‘bottom-up’ perspective in analyzing the relationship between the European Union and its Member States. The literature was mainly concerned with how to conceptualize and explain processes and outcomes of European integration. Theoretical debates were dominated by two competing paradigms of European integration that significantly disagree on the role that Member States play at the European level (for the intellectual history of the debate see e.g. Caporaso and Keeler 1993). Intergovernmentalist approaches take the Member States and their governments as the principal agents driving European integration and policy-making to protect their geopolitical interests and the economic concerns of their constituencies (Hoffmann 1982; Taylor 1991; Moravcsik 1991; Moravcsik 1998). Neofunctionalism and multi-level governance approaches, by contrast, privilege domestic interests (such as business associations, trade unions, and regions) that press for further integration to promote their economic or political interests, as well as supranational actors (particularly the European Commission and the European Court of Justice) that seek to increase the power of European institutions over the Member States (Haas 1958; Sandholtz and Stone Sweet 1998; Hooghe and Marks 2001).

In the 1990s, students of European integration became increasingly interested in the impact of European processes and institutions on the Member States. The first studies focused on the consequences of European integration for the autonomy and authority of the Member States. In order to theorize the domestic impact of Europe, the explanatory logics of the two major paradigms of European integration were essentially turned around. If intergovernmentalist approaches were correct in assuming that member-state governments controlled European integration while supranational institutions themselves exercised little independent effect, the power of the Member States would not be challenged. Rather, European integration should enhance the control of national governments over domestic affairs since it removed issues from domestic controversy into the arena of executive control at the European level (Milward 1992; Moravcsik 1994). Proponents of neofunctionalist or supranationalist approaches suggested exactly the opposite, namely that the European Union provided domestic actors, such as regions and interest groups, with independent channels of political access and influence at the European level enabling them to circumvent or by-pass their Member States in the European policy process (Marks 1993; Marks, Hooghe, and Blank 1996; Sandholtz 1996). Between the two competing paradigms, a third group of scholars emerged that rejected the zero-sum game conception of the relationship between the EU and its Member States, in which one level was to be empowered at the expense of the other. They argued that the different levels of government would become increasingly dependent on each other in European policy-making. As a result, European integration would neither strengthen nor weaken but transform the Member States by fostering the emergence of cooperative relationships between state and non-state actors at the various levels of government (Kohler-Koch 1996; Rhodes 1997; Kohler-Koch and Eising 1999).

Despite a general disagreement on the concrete impact of European integration, most of the earlier studies expected to see some kind of convergence among the Member States either leading to more centralization, decentralization or cooperation in the national political systems. Such convergence was expected to result from a redistribution of power resources among national governments and domestic actors, with some gaining new opportunities to pursue their interests while others being constrained in their action capacities (Börzel 2002b: 18–22). Yet, empirical studies on the domestic impact of Europe found little evidence for convergence. Moreover, they identified alternative mechanisms of domestic change that worked through the internalization of new norms, rules, and shared practices rather than changes in political opportunity structures (Mény, Muller, and Quermonne 1996; Cowles, Caporaso, and Risse 2001).

Integration theories are inadequate to account for the differential impact of Europe on the Member States. Their major concern has been to explain the dynamics and outcomes of the European integration process rather than its domestic effects, which appear to fall more into the realm of comparative politics and public policy. The European Union was traditionally seen as the preserve of international relations. But with the establishment of the Single

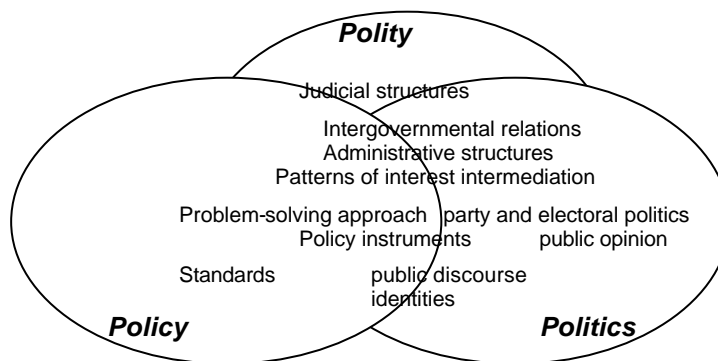
Market and the European Monetary Union propelling the delegation of domestic competencies to the European level, the disciplinary boundary became increasingly porous (Risse-Kappen 1996; Hix 1999). Comparativists could no longer ignore the effects of the European Union on the domestic institutions, policies and political processes of the Member States. As we will see in the following sections, comparative politics and public policy offer a more fine-grained analytical toolbox to trace processes and outcomes of domestic change as a consequence of European integration and EU policy-making.

3. Studying the Effect of the European Union on the Member States

3.1 Dimensions of Domestic Change

The analytical tool-box of comparative politics and public policy provides three main categories which allow to analyze the effect of the European Union on its Member States and to trace processes of domestic change: polity, policy, and.

Figure 2: Dimensions of Domestic Change: Polity, Policy, and Politics



While it is useful to analytically distinguish between the three dimensions of domestic change, reality is more complex. European policies, processes and institutions tend to affect not only one but two or all three dimensions. Domestic policy changes, for instance, often have broader repercussions since problem-solving approaches and policy instruments are closely linked to legal and administrative structures and patterns of interest intermediation (Héritier et al. 2001; Knill 2001).

3.2. Mechanisms of Domestic Change

The literature has identified several mechanisms through which Europe can affect the Member States. Christoph Knill and Dirk Lehmkuhl distinguish between *institutional compliance*, where the EU prescribes a particular model which is ‘imposed’ on the Member States, *changing domestic opportunity structures*, which leads to a redistribution of resources between domestic actors, and *policy framing*, which alters the beliefs of domestic actors (Knill and Lehmkuhl 1999; Knill 2001; on framing see also Radaelli 2000; Kohler-Koch 1996). Others emphasize *judicial review*, i.e. the right of any affected party to challenge deficient implementation of Community Law before national courts (Weiler 1991; Conant 2001). A more indirect mechanism of domestic change is *regulatory competition*, triggered by the dismantling of trade barriers, which provides firms with exit options from national jurisdictions (Sun and Pelkmans 1995; Kerwer and Teutsch 2001).

The different causal mechanisms of domestic change can be grouped around two theoretical approaches that draw on different strands of neo-institutionalist reasoning: rationalist institutionalism and sociological institutionalism. There is a third body of literature that has been referred to as organizational ecology. While it will be discussed separately, I will argue that the theoretical arguments can be largely subsumed under the other two approaches. The three approaches pose different propositions on when and how Europe affects the Member States and what the consequences are (see figure 7 below).² Yet, they share two major assumptions:

- 1) The impact of Europe on the Member States is differential, i.e. varies across Member States and policy areas.
- 2) The differential impact of Europe is explained by the ‘*goodness of fit*’ between European and national policies, institutions, and processes, on the one hand, and the existence of ‘*mediating factors*’ or intervening variables that filter the domestic impact of Europe, on the other hand.

Inconvenient Europe: Misfit as the Necessary Conditions of Domestic Change

Irrespective of the theoretical approach chosen, most studies find that there must be some ‘misfit’ (Börzel 1999; Duina 1999) or ‘mismatch’ (Héritier 1996) between European and domestic policies, processes, and institutions. The ‘goodness of fit’ (Risse, Cowles, and Caporaso 2001) or congruence between the European and the domestic level determines the degree of pressure for adaptation generated by Europeanization on the Member States.

² The following two sections draw on Börzel and Risse 2001, 2003, and Börzel 2002b; see also Risse, Cowles, and Caporaso 2001; Hix and Goetz 2000; Héritier et al. 2001.

Only if European policies, institutions, and/or processes differ significantly from those found at the domestic level, Member States feel the need to change. *The lower the compatibility between European and domestic processes, policies, and institutions, the higher is the adaptational pressure Europe exerts on the Member States.*

There are two types of misfits by which Europe exerts adaptational pressure on the Member States. First, European policies might cause a '*policy misfit*' between European rules and regulations, on the one hand, and domestic policies, on the other (cf. Héritier, Knill, and Mingers 1996; Schmidt 2001; Börzel 2003). Here, policy misfits essentially equal compliance problems. European policies can challenge national policy goals, regulatory standards, the instruments used to achieve policy goals, and/or the underlying problem-solving approach. Member state resistance to adapt domestic policies usually results in violations against European legal requirements (Börzel 2003). Policy misfit can also exert adaptational pressure on underlying institutions and political processes.

Second, Europe can cause '*institutional misfit*' challenging domestic rules and procedures and the collective understandings attached to them.³ European rules and procedures, which give national governments privileged decision powers vis-à-vis other domestic actors, conflict with the territorial institutions of highly decentralized Member States which grant their regions autonomous decision powers (Börzel 2002b). The accessibility of the European Commission for societal interests challenges the statist business-government relations in France and the corporatist system of interest mediation in Germany (Cowles 2001). Europe might even threaten deeply entrenched collective understandings of national identity as it touches upon constitutive norms such as state sovereignty (Risse 2001; Checkel 2001). The degree of institutional fit has also implications for the 'bottom-up' dimension of the EU-Member State relations. Thus, Bulmer and Katzenstein argue that the congruence in 'constitutional order', 'norms and conventions', and 'patterns of meso-level governance' between Germany and the EU has allowed Germany to play a leading role in shaping supranational institution-building and the making of European policies (Bulmer 1997; Katzenstein 1997), which in turn has reduced adaptational pressures on its domestic institutions, processes and policies. While these findings have been contested (Risse, Cowles, and Caporaso 2001; Héritier et al. 2001; Börzel 2003), they point to an important feedback loop between top-down and the bottom-up processes to which I will return in the concluding section.

Some studies have questioned the explanatory power of the goodness of fit. First, Knill and Lehmkuhl argue that the relevance of misfit is limited to the EU's market-correcting policies,

3 For a more fine-tuned definition, which breaks institutional misfit down into three sub-categories (constitutional, cultural, and functional) see Hansen and Scholl 2002. Others have distinguished between misfit concerning the core as opposed to the periphery of domestic institutions (Knill and Lenschow 2001a; Knill 2001).

such as environmental regulations, which positively prescribe or impose a concrete model for domestic compliance. Market-making policies, by contrast (e.g. transport liberalization) would leave the Member States too much flexibility and discretion in order to exert pressure for adaptation; instead they would provide domestic actors with new opportunities for achieving domestic reforms (Knill and Lehmkuhl 1999; Schmidt 2001). Yet, a European policy can only empower domestic actors *if* there is a certain misfit with domestic regulations. Accordingly, it is not only 'integration through law' that can produce misfit at the domestic level. Softer forms of integration in the 'shadow of law' or 'without law', such as the Open Method of Coordination (OMC, Héritier 2002), may equally challenge domestic institutions, policies, and processes inducing processes of social learning (Dyson forthcoming), or empowering domestic reform coalitions (Anderson, K. forthcoming).

Second, Héritier et al. criticize the static perspective, which ignores that the goalposts of goodness of fit may change over time depending on the stage of the national policy process. Even if European policies initially fit domestic regulations, they may empower domestic actors to introduce changes that go against European requirements resulting in 'ex-post' misfit. For instance, France had already deregulated its transport sector when it met the EU demands for liberalization. But the latter strengthened those domestic actors that pushed for re-regulating the impact of liberalization in order to safeguard public interest goals (Héritier et al. 2001). The French case may indeed call for a more dynamic perspective that looks at the relation between the EU and its Member States over time rather than taking a snap shot picture at a given point of time (Goetz 2000; Risse, Cowles, and Caporaso 2001). Such a dynamic perspective would also allow to account for the recursive dimension of the domestic impact of Europe, where Member States respond to European pressures by trying to (re)shape European policies and institutions in order to reduce the misfit (see below).

A third criticism, finally, focuses on the fragility of domestic institutions. If they are in a performance crisis or in endogenous transition, domestic institutions may not be sufficiently robust in order to be challenged by European policies, processes, and institutions (Morlino 1999; Knill and Lenschow 2001a). This applies, in particular, to the Southern European Member States and the Central and Eastern European accession countries, where EU membership has been associated with institution-building rather than institutional change. Nevertheless, domestic actors are socialized into new norms and values redefining their identities. Similarly, EU accession may provide new resources (money, expertise, ideas, legitimacy) that empower domestic actors to overcome crisis and shape the transition process, respectively (Grabbe 2003).

Most studies take misfit only as a necessary condition of domestic change. They identify intervening variables that mediate between European pressures for adaptation and member state responses. Depending on the theoretical approach chosen, however, the literature emphasizes different 'mediating factors'.

The Domestic Impact of Europe as a Process of Redistributing Resources

Resource-dependency approaches are usually based on some sort of rationalist institutionalism, which assumes that actors are rational, goal-oriented, and purposeful (cf. Hall and Taylor 1996). Rational actors follow a 'logic of consequentialism' (March and Olsen 1989, 1998) in the sense that they have a fixed and ordered set of preferences and they act instrumentally in order to maximize their expected utilities by deploying the resources at their disposal. As any individual or corporate actor is dependent on others to achieve his or her goals, actors have to exchange their resources to produce desired outcomes. The resource exchange is based on the mutual assessment of resources, strategies, and interests. Actors will engage in strategic interaction using their resources to maximize influence over outcomes, while trying to become as little dependent as possible on the others with whom they interact. The strategy by which actors seek to maximize their utilities, i.e. the decision with which actors they exchange what kind of resources, depends on the availability and relative value of their own resources, as well as the estimated value of the resources and the anticipated exchange behaviour (interests and strategies) of others.

Rationalist institutionalism views social institutions, including the EU, as external constraints on the behaviour of actors with given identities and preferences. From this perspective, Europe is largely conceived as an emerging political opportunity structure which offers some actors additional legal and political resources to exert influence, while severely constraining the ability of others to pursue their goals (Héritier et al. 2001; Hix and Goetz 2000; Kohler-Koch and Eising 1999). Such changes in the political opportunities and constraints for domestic actors can result in a redistribution of resources among them, empowering some over others. The 'differential empowerment' may not only alter domestic institutions but also change domestic policies and political processes.

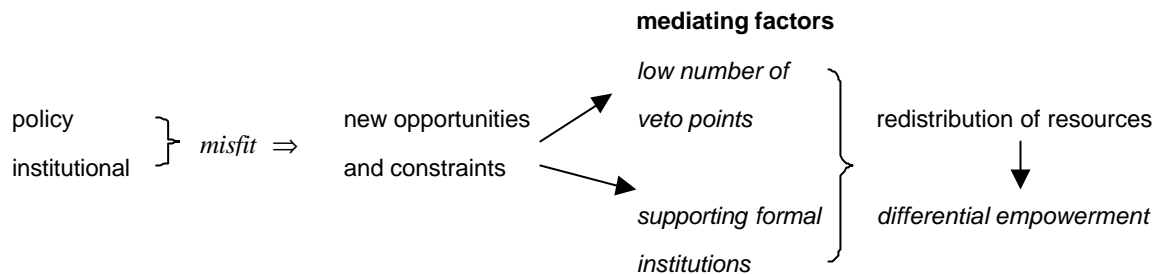
While earlier works suggested that European integration favours a particular groups of domestic actors, e.g. governments, over others, e.g. regions and interest groups, or vice versa (see above), empirical evidence clearly shows that the effect of the European political opportunity structure varies significantly. For instance, while French firms gained more autonomy vis-à-vis their national government by circumventing them in the European policy process (Schmidt 1996), Spanish firms did not (Aguilar Fernandez 1993). The Italian regions have been far less able to ascertain their domestic power vis-à-vis the central state than their Austrian or British counterparts (Jeffery 1997).

The European political opportunity structure only leads to a redistribution of resources and differential empowerment at the domestic level if, first, there is considerable misfit, which provides actors with new opportunities and constraints. And second, the literature has identified two mediating factors that influence the capacities of domestic actors to exploit new opportunities and avoid constraints with opposite effects: *multiple veto players* and *facilitating formal institutions*.

Despite the pressure to adapt ‘misfitting’ domestic institutions and policies to European requirements, the existence of *multiple veto points* can empower domestic actors with diverse interests to avoid constraints and, thus, effectively inhibit domestic adaptation (Tsebelis 1995; Haverland 2000; Héritier et al. 2001). The more power is dispersed across the political system and the more actors have a say in political decision-making, the more difficult it is to foster the domestic ‘winning coalition’ necessary to introduce changes in response to Europeanization pressures. A large number of institutional or factual veto players thus impinges on the capacity of domestic actors to achieve policy changes and qualifies their empowerment. The European liberalization of the transport sector, for example, empowered societal and political actors in highly regulated Member States, which had been unsuccessfully pushing for privatization and deregulation. But while the German reform coalition was able to exploit European policies to overcome domestic opposition to liberalization, Italian trade unions and sectoral associations successfully blocked any reform attempt (Héritier et al. 2001).

Existing *facilitating formal institutions* can provide actors with material and ideational resources necessary to exploit European opportunities and thus promote domestic adaptation (Risse, Cowles, and Caporaso 2001). The European political opportunity structure may offer domestic actors additional resources. But they are not able to deploy them when they lack the necessary action capacity. Direct relations with European decision-makers provide regions with the opportunity to circumvent their central government in European policy-making. But many regions do not have sufficient resources (manpower, money, expertise) to be permanently present at the European level and, thus, to exploit the new opportunities. In the UK, public agencies and related complementary institutions helped women’s organizations with the means to use EU equal pay and equal treatment directives in furthering gender equality. In the absence of such a formal institution, French women were not able to overcome domestic resistance to implement the EU equal pay and equal treatment policies (Caporaso and Jupille 2001; Tesoka 1999).

A low number of veto points and the existence of facilitating formal institutions determine whether policy and institutional misfit lead to a redistribution of resources and the differential empowerment of domestic actors as a result of which domestic processes, policies, and institutions get changed.

Figure 3: The Domestic Impact of Europe as a Process of Redistributing Resources

The Domestic Impact of Europe as a Process of Socialization

Socialization approaches draw on the sociological strand of neo-institutionalism which contrasts the rationalist 'logic of consequentialism' with a constructivist 'logic of appropriateness' (March and Olsen 1989, March and Olsen 1998). According to this logic, actors are guided by collectively shared understandings of what constitutes proper, i.e. socially accepted behaviour in a given rule structure. Such collective understandings and intersubjective meaning structures strongly influence the way actors define their goals and what they perceive as rational action. Rather than maximizing their subjective desires, actors seek to 'do the right thing', that is, to fulfil social expectations in a given situation. For example, it would be rational for a commuter who is exhausted after a long working day to keep his or her seat on the train ride home. However, most people probably yield their seat to elderly or pregnant women because this is what 'good citizens' are expected to do.

For sociological institutionalism, institutions do not simply regulate actors' behaviour by providing opportunities and constraints. They constitute actors by giving them a fundamental understanding of what their interests are and what the appropriate means may be to pursue these interests. Actors do not adhere to institutional norms and rules as a matter of choice but internalize them as a result of which actors take them for granted and follow them out of habit. From this perspective, European institutions are more than a political opportunity structure. They entail new rules, norms, practices, and structures of meaning, which the Member States have to incorporate. Domestic actors are socialized into European norms and rules of appropriateness through processes of persuasion and social learning and redefine their interests and identities accordingly (cf. Checkel 1999a). This perspective generates expectations about the differential impact of Europeanization, since 'misfit' constitutes the starting condition of a socialization process. The more European norms, ideas, structures of meaning, or practices resonate (fit) with those at the domestic level, the more likely will they be incorporated into existing domestic institutions (Olsen 1996: 272) and

the less likely they are to produce domestic change. The idea of cooperative governance emulated by the European Commission fits German cooperative federalism but challenges statist policy-making practices in Italy and Greece (Kohler-Koch 1998a). Yet, cognitive or normative misfit does not necessarily result in domestic change. Domestic actors and institutions often resist change despite significant pressure for adaptation.

Again, two mediating factors account for the degree to which misfit leads to processes of socialization by which actors internalize new norms and develop new identities: *norm entrepreneurs* and *cooperative informal institutions*.

Norm entrepreneurs mobilize at the domestic level to persuade actors to redefine their interests and identities in light of the new norms and rules by engaging them in processes of social learning. There are two types of norm- and idea-promoting agents. *Epistemic communities* are networks of actors with an authoritative claim to knowledge and a normative agenda (Haas 1992). They legitimate new norms and ideas by providing scientific knowledge about cause-and-effect relationships. In case of the single currency, the coalition of central bankers and national technocrats successfully advocated a monetarist approach which produced dramatic changes in domestic monetary policy, even in countries like Italy and Greece which had to undergo painful adaptation (Dyson and Featherstone 1999; Radaelli 1998). *Advocacy or principled issue networks* are bound together by shared beliefs and values rather than by consensual knowledge (Keck and Sikkink 1998). They appeal to collectively shared norms and identities in order to persuade other actors to reconsider their goals and preferences. Such processes of complex or 'double-loop' learning (Agyris and Schön 1980), in which actors change their interests and identities as opposed to merely adjusting their means and strategies, occur rather rarely. While persuasion and social learning are mostly identified with processes of policy change, they can also have an effect on domestic institutions. As Checkel argues, Germany underwent a profound and constitutive change of its citizenship norms resulting from a learning process instigated by an advocacy network (Checkel 2001). And Kohler-Koch shows how the European Commission as an 'ideational entrepreneur' seeks to socialize domestic actors into new practices of cooperative governance by involving them in the formulation and implementation of European policies through transnational networks (Kohler-Koch 1998b; 1999).

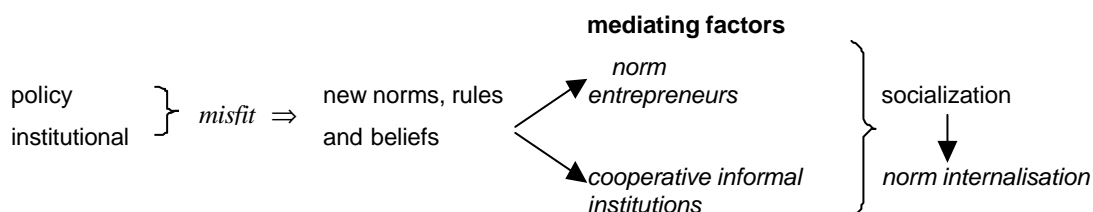
A cooperative political culture and other *cooperative informal institutions* exist which are conducive to consensus-building and burden-sharing. Informal institutions entail collective understandings of appropriate behaviour that strongly influence the ways in which domestic actors respond to Europeanization pressures. First, a consensus-oriented or cooperative decision-making culture helps to overcome multiple veto points by rendering their use for actors inappropriate. Cooperative federalism prevented the German *Länder* from vetoing any of the European Treaty revisions, which deprived them of core decision powers (Börzel 2002b). Likewise, the litigational culture of Germany encouraged its citizens to appeal to national courts for the deficient application of Community Law, while such a culture was

absent in France where litigation is much lower (Conant 2001). Second, a consensus-oriented political culture allows for a sharing of adaptational costs, which facilitates the accommodation of pressure for adaptation. Rather than shifting adaptational costs upon a social or political minority, the 'winners' of domestic change compensate the 'losers'. The consensual corporatist decision-making culture in the Netherlands and Germany facilitated the liberalization of the transport sector by offering compensation to the employees as the potential losers of the domestic changes (Héritier et al. 2001). Likewise, Vivien Schmidt shows that a particular discourse may also enhance the capacity of domestic actors to impose or negotiate adaptations to European requirements (Schmidt 2000). Cognitive arguments about the logic and necessity of new policies and institutional change serve relevant actors to legitimate costly adaptations and increase their acceptance. While an 'ideational discourse' facilitates the adoption of reform decisions, 'interactive discourse' helps to communicate these decisions to the general public.

A recent study looking at the domestic impact of Europe on the German parliament argues, however, that cooperative informal institutions may impair rather than facilitate domestic change. The 'permissive consensus', which has existed in the Federal Republic of Germany since the late 1950s, when all major parties had coalesced around both the economic and political dimension of the European integration project, has prevented the German parliament from adapting its scrutiny procedures to the requirements of European policy-making and from making effective use of their participatory rights (Hansen and Scholl 2002). While the argument is plausible, it refers to a *substantive* pro-integrationist consensus among German elites rather than collectively shared understandings and beliefs (informal institutions) about cooperation and consensus-seeking as appropriate behaviour in public policy-making.

The existence of norm entrepreneurs and cooperative informal institutions affects whether European ideas, norms and the collective understandings, which do not resonate with those at the domestic level, are internalized by domestic actors giving rise to domestic change.

Figure 4: The Domestic Impact of Europe as a Process of Socialization



The Domestic Impact of Europe as a Process of Institutional Adaptation

Institutional adaptation draws on organizational theory. It refers to the 'long-term substitution of existing practices and structures with new ones' (Olsen 1997: 159). Organizational theory identifies different causal mechanisms through which institutional adaptation can evolve. Like socialization approaches, institutional adaptation adopts a sociological institutionalist understanding of actors' behaviour and the nature of institutions (Powell and DiMaggio 1991). But its explanations follow a more structuralist reasoning emphasizing processes of institutional isomorphism. Institutions that frequently interact, are exposed to each other or are located in a similar environment develop similarities over time in formal organizational structures, principles of resource allocation, practices, meaning structures, and reform patterns (DiMaggio and Powell 1991; Meyer and Rowan 1991). This poses serious problems in explaining variation in institutional adaptation to a similar environment.

Some sociological institutionalists have addressed this problem by pointing at the 'inefficiency of history' in matching institutional practices and structures to environments and reforms (March and Olsen 1989: 54–56, March and Olsen 1995: 40–44). Institutions develop robustness towards changes in their functional and normative environments. First, institutional adaptation is path dependent. Existing institutions are not simply to be replaced or harmonized with new rules, norms, and practices. Profound and abrupt transformation, with a sudden elimination and replacement of established practices, meanings, and resource allocations, should be only expected under special circumstances (Olsen 1997: 162). Second, the more new institutional rules, norms, and practices are institutionalized, and the more they 'match' the constituting principles of already existing institutions (goodness of fit), the more likely are institutions to incorporate these new rules, norms, and practices (Olsen 1997: 161). Variation in institutional adaptation is explained by the different degrees to which new and existing institutions match each other. If institutional isomorphism is to evolve, it is the result of a long-term process in which some institutions have to undergo deeper change than others do.

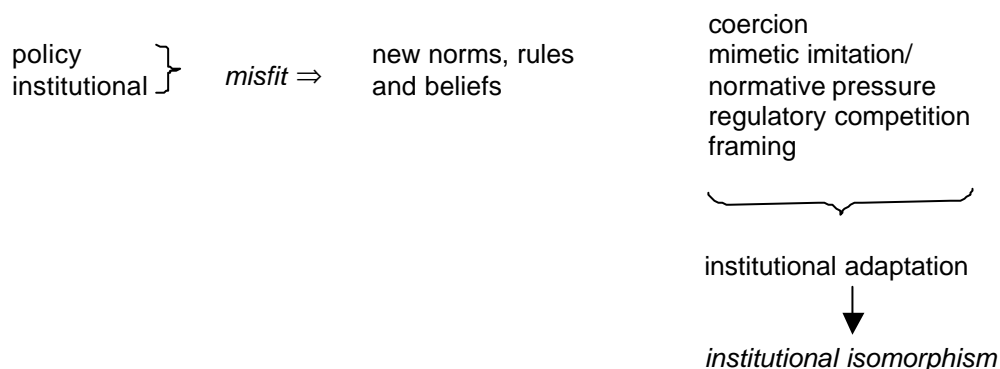
Institutional adaptation approaches also view European institutions as new norms, rules, practices, and structures of meaning, which are diffused to the Member States. Institutional isomorphism points to four diffusion mechanisms, which can result in domestic change (Olsen 2002; Knill and Lehmkuhl 1999; Radaelli 2000):

- *Coercion*: The EU positively prescribes or imposes a model with which the Member States have to comply, e.g. European monetary integration that requires the Member States to meet certain macro-economic targets related to public deficits, debt, and inflation rates and make their central banks independent (Dyson 2000).
- *Mimetic imitation and normative pressure*: Member States emulate a model recommended by the EU to avoid uncertainty (mimesis) or has been successfully

implemented by other states (*normative pressure*) as it happened in the liberalization of the telecommunication sector, where Member States have introduced independent regulatory agencies that monitor, license, and regulate (Schneider 2001).

- *Competitive selection* (regulatory competition): while the EU does neither impose nor recommend a model, Member States compete for the most efficient domestic arrangements in order to avoid comparative disadvantages. Transport liberalization policies, for instance, by which the EU demands the Member States to open their market to non-resident competitors, do not say how a liberalized market is to be governed. But EU liberalization puts pressure on Member States to change their market regulations in order to avoid regulatory burdens restricting the competitiveness of their domestic industry (Kerwer and Teutsch 2001).
- *Framing*: European actors can behave as ‘ideational entrepreneurs’, trying to alter the beliefs and expectations of domestic actors by disseminating new ideas and concepts, such as the principle of cooperative governance, which the Commission propagated in order to improve European regional development (Kohler-Koch 2002).

Figure 5: The Domestic Impact of Europe as a Process of Institutional Adaptation



Each of the four diffusion mechanisms is captured by either resource-dependency or socialization approaches. The coercion into a European model that does not fit domestic policies, institutions, and processes can empower domestic reform coalitions and/or socialize them into new norms and beliefs. Likewise, regulatory competition as a result of market-making policies induces domestic change through limiting the opportunities of states to protect their markets while creating new opportunities for customers to buy goods and services from foreign providers. Moreover, EU demands for market liberalizing may empower domestic actors by providing them with political legitimacy to push for deregulation and privatisation (Héritier et al. 2001: 257). Mimetic imitation, normative pressure and framing

work through processes of social learning, often induced by norm or ideational entrepreneurs, which seek to persuade domestic actors to alter their beliefs and interests in response to European requirements.

Subsuming institutional adaptation under the other two approaches also allows to account for variation beyond the 'goodness of fit' since the isomorphism literature has failed to specify mediating factors that help explain why domestic institutions facing similar degrees of misfit still vary with regard to the outcome of domestic change. This is all the more true since the different processes or mechanisms of domestic change are complementary rather than mutually exclusive. Mediating factors often occur simultaneously reinforcing their effects but at times also pulling in different directions (Hansen and Scholl 2002). Or they characterize different phases in processes of change. Future research has to figure out how the causal mechanisms relate to each other (Börzel and Risse 2003; Olsen 2002).

3.3. Outcome of Domestic Change

While we have rather specific ideas about when and how Europe affects the Member States, we know less about outcomes, that is, the scope and direction of domestic change.

Deep Impact? The Scope of Domestic Change

The literature broadly distinguishes between five different outcomes regarding the scope or degree of change (Héritier et al. 2001; Radaelli 2000; Cowles, Caporaso, and Risse 2001).

- *Inertia*

Inertia refers to the absence of change. This is not the result of a fit between European and domestic policies, institutions, and processes that may reaffirm existing arrangements. Rather, Member States resist the adaptations necessary to meet European requirements. Resistance to change often leads to non-compliance with European legislation against which the European Commission can open infringement proceedings, thereby increasing the pressure for adaptation (Börzel 2001).

- *Retrenchment*

Resistance to change may have the paradoxical effect of increasing rather than decreasing misfits between the European and the domestic level. Italy not only resisted the changes necessary to liberalize its transport market. Instead of liberalization, the Italian government has increased intervention (Kerwer 2001).

- *Absorption*

Member States incorporate European requirements into their domestic institutions and

policies without substantial modifications of existing structures and the logic of political behaviour. The degree of change is low.

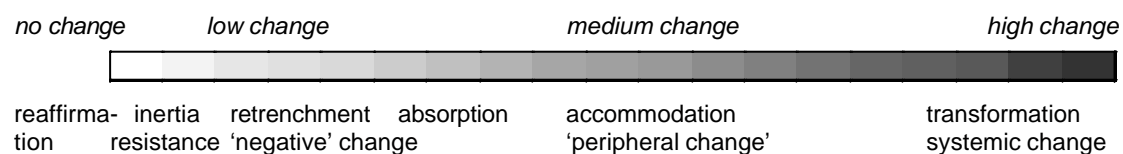
– *Accommodation*

Member States accommodate European pressure by adapting existing processes, policies and institutions in their periphery without changing core features and the underlying collective understandings attached to them (Knill 2001). One way of doing this is by 'patching up' new policies and institutions onto existing ones without changing the latter (Héritier 2001). The degree of domestic change is modest.

– *Transformation*

Member States replace existing policies, processes, and institutions by new, substantially different ones, or alter existing ones to the extent that their core features and/or the underlying collective understandings are fundamentally changed. The degree of domestic change is high, affecting the core of system-wide political, economic and social structures (Risse, Cowles, and Caporaso 2001: 15), such as the constitutional balance of power between domestic institutions, the political culture of a country or macro-economic policies and the currencies of the Member States.

Figure 6: The Scope of Domestic Change



The different theoretical approaches generate different propositions about the scope of domestic change (see figure 7). They all take misfit as the necessary condition of domestic change and converge around the expectation that the lower the misfit, the smaller the pressure for adaptation and thus the lower the degree of domestic change. But the three approaches depart on the effect of high misfit. For resource dependency, the higher the misfit, the more likely domestic reform coalitions will be empowered. Whether high misfit results in transformation or only accommodation depends on the number of veto points and the existence of supporting institutions. Institutional adaptation and socialization, by contrast, would expect high misfit challenging core features of domestic policies and institutions to result in inertia since domestic actors will refuse to simply replace norms, rules, and practices by new ones (Knill 2001). Actors are more open to learning and persuasion if new norms, rules, and practices resonate with the ones they are familiar with (Checkel 1999b).

Transformation should only occur under exceptional circumstances, such as performance crises (Olsen 1996) or powerful norm entrepreneurs supported by some coercive pressures in the form of sanctions (Risse, Ropp, and Sikkink 1999).

Figure 7: Approaches to the Domestic Impact of Europe in Comparison

	Resource Dependency	Institutional Adaptation	Socialization
1) Conditions of change			
– necessary (misfit)	new opportunities and constraints	new norms, rules, procedures, meaning structures	new norms, rules, procedures, meaning structures
– sufficient (mediating factors)	low number of veto points formal supporting institutions		norm entrepreneurs informal cooperative institutions
2) Process of Change	Redistribution of resources resulting in differential empowerment	Institutional Adaptation through coercion, mimetic imitation, normative pressure, regulatory competition, and framing resulting in isomorphism	Socialization through persuasion and social learning resulting norm internalisation
3) Outcome of Change			
– scope of change	<i>Increases</i> with the degree of misfit, the declining number of veto points and/or the presence of formal institutions	Low misfit: <i>low</i> (absorption) Medium misfit: <i>medium</i> (accommodation) High misfit: <i>low</i> (inertia; retrenchment) <i>high</i> (transformation) under conditions of crisis	Low misfit: <i>low</i> (absorption) Medium misfit: <i>medium</i> (accommodation) if presence of norm entrepreneurs and/or cooperative institutions; High misfit: <i>low</i> (inertia, retrenchment) in the absence of norm entrepreneurs and cooperative institutions; <i>medium</i> (accommodation) in the presence of norm entrepreneurs and cooperative institutions; <i>high</i> (transformation) if exceptionally powerful norm entrepreneurs or under conditions of crisis
– direction of change	differential impact, 'clustered convergence'	Convergence over time as result of isomorphism	differential impact, 'clustered convergence'

Coming Together or Driving Apart? The Direction of Domestic Change

Is Europe making the Member States more similar? The literature has found little evidence for a homogenization or *convergence* of domestic institutions, policies, and processes toward common models and approaches (Cowles, Caporaso, and Risse 2001; Héritier et al. 2001; Anderson 2002). This does not mean that Europe has no effect on the Member States. Its domestic impact is not the same as convergence. Europe may cause convergence (Schneider 2001; Harcourt 2003) but in most cases it rather does not. This is not too surprising if we accept that the effect of European policies, institutions, and processes is filtered through existing domestic institutions, policies and interests. The number of veto points, supporting formal institutions, norm entrepreneurs, and cooperative informal institutions mediate between European pressures for adaptation and the outcome of domestic change. We should expect at best some 'clustered convergence' among Member States facing similar pressures for adaptation because similar actors are empowered and are likely to learn from each other in searching effective ways of responding to European pressures (Börzel 1999). Institutional adaptation approaches appear to lean more towards convergence since they draw on arguments about institutional isomorphism (see figure 7). Institutions that frequently interact are expected to become more alike. Yet, institutional isomorphism only evolves over time and is mediated through institutional path dependencies, even though the concept is not clearly specified, e.g. by identifying mediating factors (see above).

Despite its differential impact, however, Europe has not caused *divergence* among the Member States either, driving them further apart. There are no indications that member state variation in their domestic institutions and policies has increased.⁴ The dominant finding is persistence and diversity that needs to be explained. Consequently, measuring convergence and divergence may be of limited use in analyzing the domestic impact of Europe, particularly since answers vary according to the level at which one looks for convergence or divergence (Knill and Lenschow 2001b).

Finally, the convergence we observe does not necessarily originate at the European level (Schneider 2001; Schmidt 2001). This also applies to domestic change in general. Europe is not always the driving force but complements and enhances trends that were already affecting the Member States. We have to employ counterfactuals and test for alternative explanations (Schmitter 1999: 296–297; Goetz 2000: 225–228). Globalization appears to be the major rival for Europeanization in driving domestic change. While some studies have attempted to separate effects of Europeanization and globalization (Verdier and Breen 2001; Schneider 2001), it is often difficult to isolate the 'net effect' of Europe and to disentangle it

4 Convergence in general is defined by a decreasing variation in the relevant indicators (Martin and Simmons 1998; cf. Unger and van Waarden 1995).

from other sources of domestic change not only at the global, but also at the national and local level (Anderson, J. forthcoming).

Tracing the causes, processes and outcomes of domestic change becomes even more 'muddled' if we seek to account for the interactive and recursive nature of the relationship between the EU and its Member States.

4. Bringing the Bottom-up Perspective Back In: Up-Loading and Down-Loading

The relationship between the EU and its Member States is not a one-way street. Member States are not merely passive receivers of European demands for domestic change. They may proactively shape European policies, institutions, and processes to which they have to adapt later (Bomberg and Peterson 2000; see already Wallace 1971 and Héritier et al. 1994). Moreover, the need to adapt domestically to European pressures may have significant return effects at the European level, where Member States seek to reduce the misfit between European and domestic arrangements (Dyson forthcoming; Jeffery forthcoming).

One way of linking the bottom-up and top-down dimension in the relationship between the EU and its Member States is to focus on the role of national governments in the ascending (policy formulation decision-making) and descending (implementation) stage of the European policy process. This is not to say that supranational actors, such as the European Commission or the European Parliament, are irrelevant to European policy-making. Nor do member state governments necessarily gate-keep the access of domestic interests to the European policy arena. Nevertheless, national executives hold a key position in both the decision-making and the implementation of European policies and thus influence the way in which Member States shape European policies and institutions and adapt to.

The European policy process can be conceptualized as a 'reciprocal relationship' (Andersen and Liefferink 1997: 10, 1998) between political negotiations at the domestic and the European level. At the domestic level, actors pressure their national executives to pursue policies at the European level that are favourable to their interests. At the European level, member state governments push for European policies that satisfy domestic pressures, while minimizing their adverse consequences at the domestic level (Putnam 1988: 434). Two-level game approaches establish a systematic relationship between domestic and European politics, with the national governments functioning as the core intermediators between the two. Furthermore, two-level game approaches provide a link between the ascending (decision-making) and the descending (implementation) stage of the European policy process. Except for treaty revisions, European decisions are legally binding for the

Member States and, hence, do not require ratification at the domestic level. Yet, while regulations are directly applicable, national parliaments must transpose directives into national law. Moreover, both regulations and transposed directives have to be practically applied and enforced by national administrations. Compliance problems with European policies often arise when public administrators or economic and societal actors are not willing to bear the implementation burden (Börzel 2000, 2003). They usually blame their national governments for the costs which European policies incur on them. At the same time, member state governments are held responsible by the Commission and the European Court of Justice, if European policies are not properly implemented and complied with. Consequently, member state governments tend to be rather cost sensitive in European policy-making.

An effective strategy of maximizing the benefits and minimizing the costs of European policies is to 'up-load' or export national policies to the European level. First, 'up-loading' reduces the need for legal and administrative adaptation in 'down-loading', that is, incorporating European policies into national policy structures. The more a European policy fits the domestic context, the lower the costs of adaptation in the implementation process. In the absence of an elaborate policy structure, misfitting European policies may still inflict significant costs since these structures have to be built-up in the first place. Second, 'up-loading' prevents competitive disadvantages for domestic industry. Imposing strict standards on lower-regulating Member States maintains the competitive situation of the industry in higher-regulating countries. Likewise, European liberalization and deregulation policies open new markets for industries from low-regulating countries that benefit from lower production costs. Finally, 'up-loading' may enable national governments to address problems which preoccupy their constituencies but cannot be effectively dealt with at the domestic level anymore (e.g. organized crime, environmental pollution, immigration).

Member States share a general incentive to up-load their policy arrangements to the European level. But since they have distinct social, political, and economic institutions, they often compete for policies that conform to the preferences of their constituencies (Héritier 1996). Thus, the British government, which runs a country with a rather open economy, may push for liberalization and deregulation in a policy sector. The French government, by contrast, wishes to defend its traditional approach of protecting certain industries from external competition (Ambler and Reichert 2001). Likewise, high-regulating countries seek to harmonize their strict social or environmental standards at the European level where they may meet the vigorous opposition of industrial latecomers which want to avoid competitive disadvantages for their industry. But not only do member state governments pursue diverging and often competing policy preferences. They also differ in their capacity to successfully engage in the European policy contest.

In environmental policy, the Northern European 'first-comers' (Denmark, Netherlands, Germany, Sweden, Finland, Austria) not only have a strong incentive to export their strict

environmental standards to the European level to avoid competitive disadvantages for their industries and adaptations of their regulatory structures. They also have the action capacity (resources) to actively shape European policies according to their environmental concerns and economic interests. The Southern European 'late-comers' (Greece, Spain, Portugal, Italy) lack both the policies and the action capacity (money, staff-power, expertise, administrative coordination) to upload them to the European level (cf. Börzel 2002a, 2003). Since they are policy takers rather than policy makers, the Southern Member States are far more likely to run into serious policy misfit than the Northern pace-setters. The result is a somewhat paradoxical situation where those Member States with the most limited policy-making capacities bear the highest implementation costs since they have to adapt their domestic policies and institutions much more than their Northern counterparts.

The regulatory contest in European (environmental) policy-making illustrates the interactive and recursive nature of the relationship between the EU and its Member States, where bottom-up dynamics in the EU policy process have serious implications for explaining the domestic impact of European policies on the Member States. Others have made similar arguments about a 'competition among different national modes of governance', where 'Member States aim to reduce their adaptation costs by transferring their national modes of governance to the European level' (Eising and Kohler-Koch 1999: 271; cf. Bulmer 1997; Bulmer, Jeffery, and Paterson 2000). Future research should systematically explore the links and feedback loops between the bottom-up and top-down dimension of the relationship between the EU and its Member States.

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